



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

THE CHAIRMAN

December 3, 2009

The Honorable Edward E. Kaufman
United States Senate
383 Russell Senate Office Building
Washington, DC 20510

Dear Senator Kaufman:

Thank you for your letter dated November 20, 2009, in which you raise a number of concerns about U.S. market structure and, in particular, high frequency trading. You ask for the Commission's proposed timetable for addressing these and other current market structure issues.

I can assure you the Commission takes very seriously credible allegations of market manipulation and, through its examinations and investigations, is actively enforcing the securities laws on an ongoing basis. We will continue to use all tools at our disposal to aggressively pursue illegal market manipulation by high frequency traders and others.

I agree with you, however, that improvements can and should be made so that our regulatory and surveillance mechanisms keep pace with market developments. I share your concern about maintaining and promoting the fairness and efficiency of the U.S. securities markets for all investors. As you know, the Commission has been actively engaged in a vigorous and robust review of market structure. While this review is ongoing, the Commission has already proposed rules that would address the inequities of flash orders and dark pools of liquidity. Additional initiatives, including those that will address many of the issues raised in your letter, are currently being developed by Commission staff.

Next month we hope to seek public comment, through a concept release or similar document, on a range of issues relating to dark liquidity in all of its forms, as well as the impact of high frequency trading in our markets. Among other things, we are likely to seek input on the various strategies used by high frequency traders and any special trading advantages they may enjoy, including through co-location arrangements.

In addition, as I mentioned in an October speech at SIFMA's Annual Meeting, I have asked the staff to develop recommendations for rule proposals in two specific areas. As you note, one of these proposals would implement the Commission's "large trader" reporting authority, so the Commission has better baseline information about high frequency traders and their trading activity. The second proposal would address the risk of sponsored access arrangements – by high frequency traders and others – by assuring broker-dealers implement appropriate risk controls on this activity on a market-wide basis. I anticipate the Commission will consider these proposed rulemakings next month as well.

Finally, I am committed to pursuing the goal of improved intermarket surveillance as a means to strengthen our markets, deter and ferret out wrongdoing, and augment public confidence. Therefore, earlier this year, I set up an inter-division task force among the Commission staff to develop proposals for establishing an intermarket audit trail.

Thank you again for sharing your concerns with the Commission. Please do not hesitate to contact me at (202) 551-2100, or have your staff contact Eric Spitler, Director of the Office of Legislative and Intergovernmental Affairs at (202) 551-2010, if you have any additional questions or comments.

Sincerely,

A handwritten signature in black ink, reading "Mary L. Schapiro". The signature is fluid and cursive, with the first name "Mary" and last name "Schapiro" clearly legible.

Mary L. Schapiro
Chairman